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S E C R E T SECTION 01 OF 02 ADDIS ABABA 000697

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AF/RSA DANIEL EPSTEIN

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SUBJECT: ETHIOPIA: BACKGROUND FOR U.S./CHINA DIALOGUE ON
AFRICA

REF: SECSTATE 24937

Classified By: Pol/Econ Counselor Kevin Sullivan for reasons 1.4 (B) and (D).

1.(S) SUMMARY: As requested in reftel, below are brief accounts of Chinese political, economic/ commercial and military activities in Ethiopia. China is playing an increasingly important role in Ethiopia as a donor, investor and even as a political partner of the GOE. There are not currently any areas in which the USG and China cooperate closely in Ethiopia. Future US/China dialogue and cooperation on development may be possible, but significant differences in approach would have to be overcome. The Western-dominated Ambassadors' Donors Group (ADG) is currently evaluating whether or not to accept China as a full member. China, however, may wish to remain outside the group in order to avoid involvement in the ADG's occasional public statements concerning political and human rights developments in Ethiopia. End Summary.

2. (S) Political:

Senior Ethiopian officials, including Foreign Minister Seyoum, have cultivated closer ties with both China and India, in part as a hedge against volatility in Ethiopia's relations with Western powers stemming from human rights problems following Ethiopia's disputed 2005 elections. Representatives of the Chinese Communist Party were reportedly invited to the ruling EPRDF's annual meeting in late 2005, while no European or American officials were invited. Prime Minister (PM) Meles last year co-chaired the November 2006 China-Africa Cooperation Forum meeting in Beijing. The PM also held bilateral meetings with President Hu and Premier Wen in November 2006 during the China-Africa Summit. He has emphasized to a visiting senior USG officials in January that China offers African leaders attractive assistance and credit packages with no strings attached. In a widely-read paper that Meles presented to a development conference in the UK in 2006, the PM identified China as a positive role model for African states because China's "developmental state" had administered consistent policies over time, featuring a strong state role in the economy, that had overcome market failures and delivered rapid development for its population.

Limited reporting suggests that the Chinese government has used economic incentives to increase its influence in Ethiopian policy decisions (such as Ethiopia's UN vote on UNSC reform). Post is aware of one instance in which the Chinese Communist party passed money semi-clandestinely to

regional Ethiopian officials -- for known purposes -- via a Chinese NGO. Some diplomats at the Chinese Embassy have a relationship with the National Intelligence and Security Service (NISS). It is unclear if this relationship is limited to security issues, or if elements of the Chinese intelligence services have an official intelligence liaison relationship with NISS. Mission presumes that Chinese intelligence officers assigned to Ethiopia engage in clandestine informational collection against Ethiopia and other targets.

13. (C) Economic/Commercial:

The Chinese have a number of commercial interests in Ethiopia, with particularly heavy involvement in telecommunications and road construction. (NOTE: Though the Chinese maintain a staff of only 3 dozen, there are over 5,000 nationals working in road construction and telecommunications. There are also about 50 volunteers assigned to Ethiopia. END NOTE) The Ethiopian Telecommunications Corporation (ETC), the sole telecommunications provider in Ethiopia, has extensive contracts with Chinese telecommunications firms, including Huawei and Zhongxing Telecommunications (ZTE). Telecom deals with Chinese firms reportedly include up to \$1.5 billion in soft loans and credits. China may have extended more loans in other areas. There is some indication that the GOE recognizes the risk that China's provision of technical equipment and access to ETC equipment risks China's technical intelligence collection efforts against Ethiopia's communications infrastructure. Consequently, the GOE has made some efforts to diversify the countries with whom it engages on telecommunications procurements issues.

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Nonetheless, soft Chinese credits have played an enormous role in enabling the GOE to continue its ambitious plans for improving infrastructure and accelerating economic growth amid declining aid flows from Western donors. The Western-dominated Ambassadors' Donors Group (ADG) is currently evaluating whether or not to accept China as a full member. China is Ethiopia's second largest import source and export market. Ethiopian exports to China doubled in recent years following the elimination of Chinese tariffs on certain Ethiopian goods. China's Zhongyuan Petroleum Exploration Bureau is exploring for oil in the Gambella region. China is building dam in northwest Ethiopia and has provided \$1.5 billion toward telecommunications infrastructure. China is also planning a \$1 billion infrastructure development loan for Ethiopia. China, however, may wish to remain outside the group in order to avoid involvement in the ADG's occasional public statements concerning political and human rights developments in Ethiopia.

14. (C) Military:

China maintains a mil-mil relationship with the ENDF and has engaged in dialogue with ENDF officials on a range of issues including, but not limited to, procurement of Chinese military equipment to proposed training assistance. The ENDF's outdated military equipment is primarily Russian, which has complicated Chinese attempts to arrange purchases of Chinese military equipment. Ethiopia buys weapons and equipment from China. North Korea, engaged in a primarily mil-mil relationship with Ethiopia, provides an additional source of competition for military sales.

15. (S) COMMENT: China is playing an increasingly important role in Ethiopia as a donor, investor and even as a political partner of the GOE. The Chinese are clearly focused on business sales fueled by loans from China, as well as cheap arms sales (guns, jeeps, ammunition). The main selling point by China is a "no conditions" clause, except for repayment of loans. There are no human rights restrictions or other stipulations. Further it does not appear that the Chinese are under restriction for capacity building. All

construction and telecom work is performed by Chinese workers with minimal training for Ethiopian workers. China likely seeks to access Ethiopia's raw materials and partnership to constrain Taiwan. Ethiopia seeks China's development aid and concessional assistance without conditions. Ethiopia may also see China as a development and ideological model. There are not currently any areas in which the USG and China cooperate closely in Ethiopia. Future US/China dialogue and cooperation on development may be possible, but significant differences in approach would have to be overcome.

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